

Competitive Sourcing: Results in Action An Initiative Update

Competitive sourcing (also known as public-private competition) combines the best practices of organizational process re-engineering with the unique benefits of competition. When implemented reasonably and rationally, competitive sourcing results in significant cost savings, improved performance, and a better alignment of the agency's workforce to its mission. In FY 2004, agencies completed competitions involving more than 12,500 positions to determine the most efficient and effective way to perform a variety of recurring commercial activities. Results from FY 2004 show that agencies are increasingly successful in using public-private competition as a management tool.

Savings continue to rise. The 217 competitive sourcing studies completed during FY 2004 are estimated to generate a net savings, or cost avoidance of \$1.4 billion over three to five years. Combined with \$1.1 billion in projected savings generated in FY 2003, competitions conducted under OMB's revised A-76 Circular will free up \$2.5 billion dollars that can be redirected to higher priorities or deficit reduction. Estimated net annual savings per full-time equivalent employee (FTE) studied also increased from FY 2003 to FY 2004. Competitions completed in FY 2004 are estimated to generate net annual savings of \$22,000 per FTE, nearly doubling the \$12,000 generated in FY 2003.

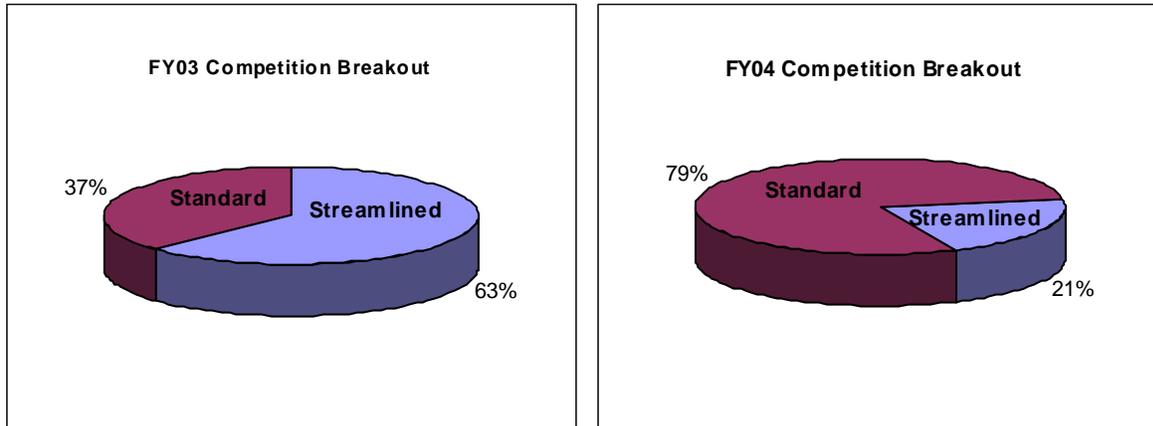
Savings per FTE^a

Factor	FY 2003	FY 2004
Annualized net savings Per FTE	\$12,000	\$22,000
Savings rate per FTE studied	15%	27%

^a These figures do not include fixed costs (which were not reported by agencies in FY 2003). They also do not reflect transition costs. In addition, the FY 2003 figures reflect savings achieved under 5 standard competitions completed in the first quarter of FY 2004 by the Departments of Energy, Health and Human Services, Justice, and Commerce, and the Office of Personnel Management but reported by OMB as part of its FY 2003 report. If the savings from these 5 competitions were removed from the FY 2003 data and added to the FY 2004 data, annualized net savings per FTE for FY 2004 would be \$23,000 and the savings rate for FY 2004 would climb to 28 percent.

Improved structure of studies is contributing to increased savings. Analysis of agencies' FY 2004 competition data suggests that the overall increase in savings is largely attributable to two factors: (1) larger (therefore, more effective) competitions -- the average number of FTEs included per competition increased from 27 in 2003 to 58 in 2004 -- and (2) more frequent use of standard competitions that require the in-house team to use business re-engineering processes to create a most efficient organization and compete head-to-head with private sector offerors. (By contrast, in FY 2003, many agencies relied on streamlined competitions, which are typically conducted through documented market research and rarely give contractors the chance to submit actual offers.)

Civilian Agency Use of Streamlined & Standard Competitions (based on FTE)



Competition is the impetus behind the cost savings. Significantly higher savings result from increased private sector competition. Competitions receiving two or more bids from the private sector are estimated to yield savings of more than \$30,000 per FTE, while competitions receiving no bids from the private sector are expected to average savings of just over \$18,000 per FTE. The difference between the two amounts demonstrates that the combination of competition and re-engineering, rather than re-engineering alone, is the main driver of the savings demonstrated through this initiative. Regardless of whether the result of the study points to in-house or private sector performance, the incentive of competition drives bid prices down and efficiencies up.

Level of Competition and Associated Annual Net Savings per FTE

% of Standard Competitions	Bids Received			Total Competitions
	2+	1	0	
Government-wide	47% \$32,500	24% \$22,400	29% \$18,300	75

% of FTE Competed	Bids Received			Total FTEs
	2+	1	0	
Government-wide	45% \$32,500	31% \$22,400	24% \$18,300	9,935

Charts do not include NASA science competitions or DOD competitions without cost or savings data at the time that the government-wide data was compiled.

Growth in future cost savings is anticipated. Agencies continue to identify and study activities that are likely to benefit from the results of competition. Best practices from an ever-growing pool of competitions are being shared across government organizations to ensure that competitive sourcing continues to be used as a tool to promote greater efficiencies and effectiveness in commercial activities performed by the government. If promising trends continue and agencies are successful in facilitating robust competition, annual net savings should continue to grow.

Examples of Cost-Saving Changes and Other Improvements Facilitated by Competition

- The Federal Aviation Administration will consolidate its automated flight service station (AFSS) system – from 58 to 20 stations -- and modernize facilities and technologies. These stations provide pilot weather briefings, in-flight radio communications, flight planning, and search-and-rescue support. Studies by FAA and the Department of Transportation’s Inspector General identified significant deficiencies with the AFSS system. This competition, the largest competitive sourcing effort ever undertaken by a federal agency (studying the work of 2,700 FTEs), is expected to save taxpayers \$1.7 billion over 10 years.*
- The Internal Revenue Service (IRS) at the Department of the Treasury consolidated their Area Distribution Centers from three locations to one. The consolidation will result in a significant reduction in labor costs through greater reliance on digital technologies. Post-consolidation, IRS expects to increase service levels to the public, while achieving projected savings of \$108 million over five years.
- The Forest Service at the Department of Agriculture anticipates improvements to information technology (IT) services through consolidation and streamlining. The Forest Service performed a best value analysis, evaluating offers both in terms of cost and quality. The Forest Service expects about \$30 million in annual savings after consolidating approximately 150 IT operations into ten server farms. Additionally, Forest Service streamlined operational processes and personnel assignments to effectively meet its IT needs in the new consolidated environment.
- The Social Security Administration (SSA) has conducted a competition in order to make their information technology (IT) support more efficient, streamlining their help desk and administrative support activities as well as re-deploying labor to fill understaffed IT-related positions. Savings are expected to reach \$36 million over five years.
- The Department of Education expects a more efficient and effective payment processing function following a competitive sourcing competition. Projected savings of \$34 million and enhanced services are anticipated due to the leveraging of technology, the consolidation of their accounts payable operations, and more customer-focused performance standards.

* This competition was announced in FY 2004 (Dec. 2003) but was not completed until FY 2005 (Jan. 2005).